
AUDIT OF DELAWARE STATE UNIVERSITY'S ADMINISTRATION OF THE TITLE III STRENGTHENING HBCU PROGRAM



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U.S. Department of Education
Office of Inspector General
Philadelphia, Pennsylvania

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EXECUTIVE SUMMARY

The objective of our audit was to determine if Delaware State University (DSU) administered the Title III, Part B Strengthening Historically Black Colleges and Universities Program (the HBCU Program) in accordance with applicable laws, regulations, and program requirements. Our audit covered the period October 1, 1997, to September 30, 2001. As a result of concerns identified during our fieldwork, the scope of the audit was expanded to include DSU's accounting for Title III-funded endowment funds, including those funded under the Part C Endowment Challenge Grant Program, for the period July 1, 1992, to December 31, 2001.

Except for DSU's administration of endowment funds established with funds from the HBCU Program and Endowment Challenge Grant Program, our audit disclosed that during the period October 1, 1997, to September 30, 2001, DSU generally administered the HBCU Program funds in accordance with applicable laws, regulations, and requirements.

We found DSU drew down \$200,000 of HBCU Program funds for their Endowment Challenge Program activity 21 months prior to accounting for the funds in October 2001. The funds were drawn down on February 9, 2000, and remained on deposit in DSU's bank account earning interest until December 2001. During this period, DSU reported to the U.S. Department of Education (the Department) that \$200,000 of matching funds had been raised and that the endowment fund corpus, consisting of grant and matching funds, had been placed in a separate investment account. For the quarter-ended December 31, 2001, DSU deposited into an endowment fund \$200,000 of grant funds, \$150,000 of matching funds, and \$18,140 of interest earned, while the grant funds were on deposit in their bank account.

In addition, we found that DSU did not adequately account for endowment funds established with HBCU Program and Endowment Challenge Grant Program funds. DSU's accounting records for their pooled endowment fund did not adequately account for the endowment funds' additions, income, and withdrawals. In February 2002, DSU prepared revised endowment fund accounting records for the period July 1, 1992, to December 31, 2001; the revised accounting records address many of the inadequacies of DSU's original endowment fund accounting.

We also found that DSU charged \$3,422 of unallowable costs and \$2,289 of unsupported costs to the HBCU Program funds. In February 2002, DSU returned the unallowable and unsupported costs to the HBCU Program account.

We recommend that the Assistant Secretary for Postsecondary Education require DSU to establish controls that ensure: (1) Title III funds for endowment activities are accounted for, matched, and invested in a timely manner; (2) Title III-funded endowment activities are properly reported to the Department; (3) Title III-funded endowment funds are adequately accounted for; and (4) expenditures made with HBCU Program funds are supported and reasonable.

A draft of this audit report was provided to DSU. DSU concurred with the findings and recommendations presented in the audit report. In addition, DSU noted the corrective actions they have implemented. A copy of DSU's response is included as an attachment to this audit report.

BACKGROUND

Established in 1891, Delaware State University (DSU) is a public institution that offers baccalaureate and graduate programs. Located in Dover, Delaware, DSU is designated as a historically black college and university and has an enrollment of approximately 3,100 students.

The Title III, Part B Strengthening Historically Black Colleges and Universities Program (the HBCU Program) provides grants to historically black colleges and universities to assist these institutions in establishing and strengthening their physical plants, academic resources, fiscal management, and endowments so that they may continue to participate in fulfilling the goal of equality of educational opportunity. To be eligible to receive a grant under the HBCU Program, an institution must be designated by the U.S. Department of Education (the Department) as a historically black college and university.

HBCU Program funds may be used for the following activities: (1) the purchase, rental or lease of scientific or laboratory equipment for educational purposes; (2) construction, maintenance, and renovation of instructional facilities; (3) faculty development and exchanges; (4) academic instruction in disciplines where Black Americans are underrepresented; (5) the purchase of educational material; (6) tutoring, counseling, and student service programs; (7) funds and administrative management and acquisition of equipment for use in strengthening funds management; (8) joint use of facilities; (9) establishing or improving a development office; (10) establishing or improving a program of elementary and secondary school teacher education; (11) establishing community outreach programs to encourage the pursuit of postsecondary education; and (12) establishing or increasing an endowment fund. If an institution uses part of its HBCU Program funds for establishing or increasing an endowment fund, it is subject to certain Title III, Part C Endowment Challenge Grant Program provisions. HBCU Program grants are for a period of up to five academic years, with authorizations made yearly.

During the audit period, October 1, 1997, to September 30, 2001, DSU was awarded HBCU Program grants totaling \$6,560,504. During the same period, DSU expended grant funds totaling \$3,772,749.¹ Appendix A provides a description of the activities at DSU that are supported with HBCU Program funds.

Congress appropriated funds for the Title III, Part C Endowment Challenge Grant Program during fiscal years 1984 to 1995. The Endowment Challenge Grant Program provided endowment challenge grants to eligible institutions to (1) establish or increase endowment challenge funds, (2) provide additional incentives to promote fund-raising activities, and (3) foster increased independence and self-sufficiency at eligible institutions. In general, institutions eligible for the Endowment Challenge Grant Program included institutions eligible for the

¹ The amount awarded is for five award years (1997, 1998, 1999, 2000, and 2001), whereas the amount expended is for a four-year period.

Strengthening Institutions Program and the HBCU Program. The significant requirements of the Endowment Challenge Grant Program include: (1) institutions must match the grant awards with non-Federal funds; (2) endowment challenge grants must be invested for a duration of 20 years; (3) the endowment fund corpus² may be invested in securities such as certificates of deposit, mutual funds, stocks or bonds; (4) during the grant period, the institution may not withdraw any part of the endowment fund corpus; and (5) during the grant period, the institution may withdraw, for costs necessary to operate the institution or administer and manage the endowment fund, up to 50 percent of the total aggregate endowment fund income earned prior to the date of expenditure.

The Department awarded DSU two Endowment Challenge Grants. In 1986, DSU received an Endowment Challenge Grant of \$50,000; DSU matched the grant with \$50,000 for a total original endowment fund corpus of \$100,000. In 1995, DSU received a second Endowment Challenge Grant of \$382,750; DSU matched the grant with \$191,375 for a total original endowment fund corpus of \$574,125.

Unless otherwise specified, all regulatory citations are to the July 1, 1997, volume.

AUDIT RESULTS

The objective of our audit was to determine if DSU administered the HBCU Program in accordance with applicable laws, regulations, and program requirements. Our audit covered the period October 1, 1997, to September 30, 2001. As a result of concerns identified during our fieldwork, the scope of the audit was expanded to include DSU's accounting for Title III-funded endowment funds, including those funded under the Part C Endowment Challenge Grant Program, for the period July 1, 1992, to December 31, 2001.

Except for DSU's administration of endowment funds established with funds from the HBCU Program and Endowment Challenge Grant Program, our audit disclosed that during the period October 1, 1997, to September 30, 2001, DSU generally administered the HBCU Program funds in accordance with applicable laws, regulations, and requirements.

A draft of this audit report was provided to DSU. DSU concurred with the findings and recommendations presented in the audit report. In addition, DSU noted the corrective actions they have implemented. A copy of DSU's response is included as an attachment to this audit report.

² The endowment fund corpus consists of the Federal grant funds and the institution's matching funds. 34 C.F.R. § 628.6.

FINDING NO. 1 DSU DID NOT HANDLE FUNDS FOR THE ENDOWMENT CHALLENGE PROGRAM ACTIVITY IN A TIMELY MANNER

DSU did not: (1) promptly account for HBCU Program funds drawn down for the Endowment Challenge Program activity,³ (2) promptly provide matching funds for the HBCU Program funds, and (3) deposit and invest the endowment fund corpus in a timely manner. The table below presents the significant events for the Endowment Challenge Program activity.

Date	Event/Transaction
February 9, 2000	DSU draws down \$200,000 of HBCU Program funds from the Department for their Endowment Challenge Program activity, and deposits the funds into their corporate bank account on March 3, 2000. ⁴ While on deposit, the funds are invested in a money market account and earn interest.
October 26, 2001	Approximately 21 months later, DSU accounts for the funds through journal entries transferring \$200,000 from the Endowment Challenge Program activity account to the Federal III endowment fund account.
November 7, 2001	DSU posts journal entries to transfer \$150,000 of matching funds to the Federal III endowment fund account.
February 2002	We review DSU's endowment fund accounting records (unitization schedules). DSU establishes the Federal III endowment account in DSU's pooled endowment fund's unitization schedule for the quarter-ended December 31, 2001. The Federal III endowment account is funded with \$200,000 of grant funds, \$18,140 of interest earned on the funds while they were on deposit in DSU's bank account from March 3, 2000, through December 31, 2001, ⁵ and \$150,000 of matching funds from DSU.

The delay in accounting for, matching, depositing, and investing the grant funds was due to inadequate management controls pertaining to the drawdown and recording of Federal grant funds. As a result, DSU did not comply with Federal regulations covering cash management and Title III-funded endowments. Regulations at 34 C.F.R. § 74.22(b)(2) require cash

³ The Endowment Challenge Program activity is one of DSU's Title III, Part B HBCU Program activities. While similar in name, it should not be confused with the Title III, Part C Endowment Challenge Grant Program, discussed elsewhere in this report.

⁴ The funds were held at the State of Delaware between February 9, 2000, and March 3, 2000.

⁵ Interest was credited to December 31, 2001, because new endowment funds do not begin to participate in the pooled endowment fund's income and gains or losses until the following quarter, in this case the quarter-ended March 31, 2002.

advances to recipient organizations be limited to the minimum amounts needed and be timed in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the program or project. Pursuant to 20 U.S.C. § 1062(b)(3), the Title III, Part C Endowment Challenge Grant Program provisions regarding the establishment or increase of an endowment fund, that are not inconsistent with the Title III, Part B HBCU Program provisions, shall apply to Part B funds used for endowment activities. The Endowment Challenge Grant Program's implementing regulations establish the following requirements, among others, for institutions that receive endowment challenge grants:

- ❑ Establish an endowment fund independent of any other endowment fund established by or for the institution. 34 C.F.R. § 628.41(a)(2).
- ❑ Deposit the matching funds in the endowment fund established under this part. 34 C.F.R. § 628.41(a)(3).
- ❑ Upon receipt, immediately deposit the grant funds into the endowment fund established under this part. 34 C.F.R. § 628.41(a)(4).
- ❑ Within fifteen working days after receiving the grant funds, invest the endowment fund corpus. 34 C.F.R. § 628.41(a)(5).

Under regulations at 34 C.F.R. § 608.10(d)(3), which became effective January 18, 2001, institutions are required to match the grant funds immediately with non-Federal funds when it places those funds into its endowment fund.

In December 2001, we shared our preliminary finding with DSU officials. They noted that when the \$200,000 was drawn down, matching funds were available, but not properly allocated to the Endowment Challenge Program activity.

RECOMMENDATION:

- 1.1 The Assistant Secretary for Postsecondary Education should ensure that DSU establishes management controls that result in the immediate match of the Title III grant funds for endowment activities and the immediate deposit of the grant and matching funds into an endowment fund.

AUDITEE'S COMMENTS:

DSU concurred with the finding and recommendation. DSU will ensure that all future drawdowns will be matched with funds from appropriate sources in a timely manner.

**FINDING NO. 2 DSU REPORTED INACCURATE INFORMATION ON ITS ENDOWMENT
CHALLENGE PROGRAM ACTIVITY**

DSU reported inaccurate information on the status of the Endowment Challenge Program activity to the Department in the HBCU Program's continuation grant applications and annual performance reports. The information was inaccurate, because it did not reflect DSU's actual accomplishments or transactions. Specifically, in DSU's May 1998 and May 1999 continuation grant applications and annual performance reports, \$100,000 was budgeted each year for the Endowment Challenge Program activity. In both the May 1999 and March 2000 continuation grant applications and annual performance reports, DSU stated that \$100,000 was set aside in the previous year for endowment purposes and that they raised the required match of 100 percent or \$100,000. In addition, in both the March 2000 and April 2001 continuation grant applications and annual performance reports, DSU stated that the endowment fund corpus was placed in a separate investment account.

These statements indicate that DSU established an independent endowment fund for the Endowment Challenge Program activity, deposited the grant and matching funds into the endowment fund, and invested the endowment fund corpus. The Endowment Challenge Grant Program's implementing regulations establish the following requirements, among others, for institutions that receive endowment challenge grants:

- ❑ Establish an endowment fund independent of any other endowment fund established by or for the institution. 34 C.F.R. § 628.41(a)(2).
- ❑ Deposit the matching funds in the endowment fund established under this part. 34 C.F.R. § 628.41(a)(3).
- ❑ Upon receipt, immediately deposit the grant funds into the endowment fund established under this part. 34 C.F.R. § 628.41(a)(4).
- ❑ Within fifteen working days after receiving the grant funds, invest the endowment fund corpus. 34 C.F.R. § 628.41(a)(5).

We found that while DSU raised more than \$200,000 of eligible matching funds, DSU did not post journal entries to transfer the matching funds to the Federal III endowment account until November 7, 2001, twenty-one months after DSU drew down the grant funds from the Department. When DSU finally matched the \$100,000 of fiscal year 1998 grant funds, it transferred to the Federal III endowment account only \$50,000 of the \$100,000 of matching funds that it reported in its May 1999 continuation grant application and annual performance report. In addition, the \$200,000 of federal funds drawn down by DSU on February 9, 2000, remained on deposit in DSU's corporate bank account; the funds were not placed in a separate investment account as reported by DSU in the March 2000 and April 2001 continuation grant applications and annual performance reports. In preparing the performance reports, DSU's

Title III Coordinator relied on information provided by DSU Business and Finance Office employees; the information was not verified.

Regulations at 34 C.F.R. § 74.51(d) require that grantee's performance reports must contain a comparison of the actual accomplishments with the goals and objectives established for the period, and reasons why established goals were not met. Annual performance reports that contain inaccurate information prevent the Department's program staff from assessing a grantee's progress toward meeting the grant's goals and objectives, providing needed technical assistance to the grantee, or imposing special award conditions on the grantee.

RECOMMENDATIONS:

The Assistant Secretary for Postsecondary Education should:

- 2.1 Require that DSU establish management controls to ensure the verification of information (i.e., actual accomplishments, reasons for deviations from established goals, and developments that have a significant impact on award funded activities) reported in DSU's annual performance reports.
- 2.2 Require that DSU submit a report on the current status of the HBCU Program-funded Endowment Challenge Program activity. Such a report should include the status of the endowment grant funds, information on the amounts and sources of the required matching funds, and a comparison of actual accomplishments of the activity to the previously reported accomplishments.

AUDITEE'S COMMENTS:

DSU concurred with the finding and recommendations. DSU stated that they implemented a new procedure to ensure the verification of information provided in their annual performance reports. In addition, DSU will submit a performance report on the current status of the Endowment Challenge Program activity.

**FINDING NO. 3 DSU DID NOT ADEQUATELY ACCOUNT FOR TITLE III-FUNDED
ENDOWMENT FUNDS**

DSU did not adequately account for the endowment funds established with Title III HBCU Program and Endowment Challenge Grant Program funds. DSU invests most of its endowment fund assets through the Common Fund, an investment company, in an account for DSU's pooled endowment fund. The assets of DSU's various endowment funds were pooled and invested among stock, bond, and international stock funds.⁶ Endowment fund assets that were not transferred to the Common Fund remained on deposit in DSU's money market account. DSU uses a quarterly unitization schedule to apportion the Common Fund account balances and money market account balances among the participating endowment funds, and to allocate the market value, income, gain or loss, and distributions attributable to each participating endowment fund. We reviewed DSU's original unitization schedules for the period October 1, 1997, to September 30, 2001. We found that:

- ❑ In preparing the quarterly unitization schedules, DSU did not include \$610,098 of cash net income (e.g., net income not reinvested) from Common Fund investments during the period October 1, 1997, to September 30, 2001.
- ❑ In preparing the quarterly unitization schedules, DSU did not include \$136,046 of net income reinvested in Common Fund investments during the period October 1, 1997, to March 31, 1999.
- ❑ In preparing the quarterly unitization schedules, DSU did not include the interest earned on the pooled endowment fund's money market account balances. The interest earnings are classified as general revenue for DSU. Using DSU's revised unitization schedules, we estimate that approximately \$123,000 of interest income was earned on the pooled endowment fund's money market account balances during the period October 1, 1997, to December 31, 2001. In addition, we estimate that the pooled endowment fund's money market account balances represent approximately \$1.4 million or 12 percent of the total market value reported on the pooled endowment fund unitization schedule for the quarter-ended December 31, 2001.
- ❑ DSU did not maintain records detailing the amount and purpose of all expenditures of endowment fund income that were withdrawn from the various endowment funds (i.e., endowed scholarships, endowed professorships, and the Federal and Federal II

⁶ As of December 31, 2001, DSU's pooled endowment fund was (approximately) allocated among the following investments: money market accounts (12 percent), Multi-Strategy Bond Fund (24 percent), Multi-Strategy Equity Fund (56 percent), and International Equity Fund (eight percent).

endowment funds which were funded with Title III Endowment Challenge Grant Program funds).⁷

- ❑ DSU did not record additions to the endowment funds, totaling \$250,000, on the pooled endowment fund's unitization schedule in the quarter in which the additions were received by DSU. The \$250,000 consists of \$200,000 of HBCU Program funds drawn down on February 9, 2000, and \$50,000 of Luna Mishoe Scholarship Funds provided by the State of Delaware for fiscal year 1998.

Regulations applicable to Title III-funded endowment accounts at 34 C.F.R. § 628.47(a) require grantees to keep records of (1) the source, kind, and amount of matching funds; (2) the type and amounts of investments of the endowment fund; (3) the amount of endowment fund income; and (4) the amount and purpose of expenditures of endowment fund income. In addition, regulations at 34 C.F.R. § 628.43(b) require that, when investing the endowment fund, grantees shall exercise the judgment and care that a person of prudence, discretion, and intelligence would exercise in the management of their own financial affairs. Post-award requirements for Federal grants awarded to institutions of higher education require that grantee's financial management systems provide:

- ❑ Records that identify adequately the source and application of funds for Federally-sponsored activities. These records shall contain information pertaining to the activities' assets, outlays, income, and interest. 34 C.F.R. § 74.21(b)(2).
- ❑ Effective control over and accountability for all funds, property, and other assets. 34 C.F.R. § 74.21(b)(3).

DSU did not adequately account for the endowment funds established with Title III Endowment Challenge Grant Program and HBCU Program funds, because of staff turnover in the DSU Business and Finance Office, unfamiliarity with applicable regulations and requirements, and inadequate management controls. As a result, DSU's original unitization schedules did not provide adequate information on the market values and income earned on the endowment funds established with Title III Endowment Challenge Grant Program funds.

⁷ We noted only one withdrawal made from Title III-funded endowment accounts during the period July 1, 1992, to December 31, 2001. In the quarter-ended March 31, 2001, DSU withdrew \$5,000 from the Federal endowment account to provide matching funds for the Nwosu Endowed Scholarship Fund.

The Department provided DSU with Title III, Part C Endowment Challenge Grant Program and Part B HBCU Program funds for endowment purposes, as follows:

Title III	Endowment Account	Date Funds Received	Federal Amount	Matching Amount	Original Endowment Corpus
Part C	Federal	September 1986	\$50,000	\$50,000	\$100,000
Part C	Federal II	October 1995	\$382,750	\$191,375	\$574,125
Part B	Federal III	February 2000	\$200,000	\$150,000	\$350,000
		Totals	\$632,750	\$391,375	\$1,024,125

In December 2001, we shared our preliminary finding with DSU officials. In response, in February 2002, DSU's Business and Finance Office prepared revised unitization schedules for the period July 1, 1992, to December 31, 2001. We reviewed the revised unitization schedules, and found that DSU addressed most of our concerns, except for the crediting of interest earned on the pooled endowment fund's money market account balances. However, DSU's Associate Vice President for Business and Finance indicated that DSU will transfer the Title III-funded endowment accounts (i.e., Federal, Federal II, and Federal III) into separate Common Fund accounts. This proposed action by DSU will address our issue concerning the crediting of interest on money market account balances, because all future income attributable to the Title III-funded accounts will be recorded on the respective Common Fund statements. In addition, under regulations governing the withdrawal of endowment fund income, DSU could be entitled to withdraw the money market account interest that was attributable to the Title III-funded endowment accounts.⁸

As a result of DSU's revising the unitization schedules, the market values for the Federal and Federal II endowment funds increased.

Market Values as of September 30, 2001				
Endowment Account	Revised Unitization Schedule	Original Unitization Schedule	Difference	Percentage Difference
Federal II	\$831,346	\$478,104	\$353,242	73.88 Percent
Federal	\$398,965	\$270,053	\$128,912	47.74 Percent

In addition, the June 30, 2001, market values for the Federal and Federal II endowment funds that were reported to the Department in the Financial Report(s) for the Endowment Challenge

⁸ Pursuant to 34 C.F.R. § 628.45(a)(1), a grantee may withdraw and spend up to 50 percent of the total aggregate endowment fund income earned prior to the date of expenditure.

Grant Program are lower than the market values for the Federal and Federal II accounts contained in the revised unitization schedules.

RECOMMENDATIONS:

The Assistant Secretary for Postsecondary Education should:

- 3.1 Ensure that separate investment accounts are established by DSU with the correct fund balances for all Title III-funded endowment funds (i.e., Federal, Federal II, and Federal III).
- 3.2 Ensure that DSU's revised methodology of accounting for Title III-funded endowment funds meets the requirements set forth in regulations at 34 C.F.R. § 628.47.
- 3.3 Determine if DSU should submit revised Financial Report(s) for the Endowment Challenge Grant Program.

AUDITEE'S COMMENTS:

DSU concurred with the finding and recommendations. DSU stated that they established separate endowment investment accounts for all Title III-funded endowment funds with the Common Fund. By establishing separate endowment investment accounts, DSU revised their methodology of accounting for Title III-funded endowment funds to meet the requirements set forth in 34 C.F.R. § 628.47. DSU will submit revised Financial Reports for the Endowment Challenge Grant Program by July 15, 2002.

FINDING NO. 4 DSU CHARGED UNALLOWABLE AND UNSUPPORTED COSTS TO HBCU PROGRAM FUNDS
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Our review found that DSU charged \$3,422 in unallowable costs and \$2,289 in unsupported costs to HBCU Program funds during the period October 1, 1997, to September 30, 2001. During the same period, DSU expended grant funds totaling \$3,772,749.

The unallowable costs included \$1,833 for unnecessary, unrelated, or incorrectly reimbursed travel expenses, \$1,337 for water and water cooler rentals in DSU offices, and \$253 for the printing of Christmas cards. The unallowable costs were approved and paid for because certain expenditures (i.e., for reprographics services) are charged to blanket purchase orders that are approved for each activity. In addition, DSU's Title III Coordinator approved expenditures (i.e., for travel and water cooler charges) in error. The Office of Management and Budget Circular Number A-21, "Cost Principals for Educational Institutions," Paragraph C.3 states that

one of the major considerations involved in determining the reasonableness of a cost is whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement. In addition, DSU's Title III Operational Manual states, "Travel supported through the use of Title III funds must be directly related to achieving the goals of the specific Activity."

Timesheets or time and effort reports supporting two payroll expenditures could not be located. As a result, costs totaling \$2,289 were unsupported. The unsupported costs occurred because of a loss of payroll records or employees not submitting timesheets or time and effort reports. Regulations at 34 C.F.R. § 74.21(b)(7) require that grantees' financial management systems provide for accounting records, including cost accounting records that are supported by source documentation.

In December 2001, we provided DSU officials with our preliminary findings. In February 2002, DSU returned to the HBCU Program account \$3,422 for the unallowable costs, \$2,289 for the unsupported payroll costs, and \$643 in related benefit costs. As a result, DSU has taken corrective action to address the unallowable and unsupported costs identified in our review.

RECOMMENDATION:

- 4.1 The Assistant Secretary for Postsecondary Education should require that DSU ensures that staff involved in the expenditure approval process are familiar with what constitutes adequately supported and reasonable (i.e., necessary and related) HBCU Program expenditures.

AUDITEE'S COMMENTS:

DSU concurred with the finding and recommendation. DSU stated that they reviewed the expenditure approval process with staff; this review will assist staff in identifying reasonable expenditures of Title III grant funds.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our audit was to determine if DSU administered the Title III, Part B HBCU Program in accordance with applicable laws, regulations, and program requirements. Our audit covered the period October 1, 1997, to September 30, 2001. As a result of concerns identified during our fieldwork, the scope of the audit was expanded to include DSU's accounting for Title III-funded endowment funds, including those funded under the Part C Endowment Challenge Grant Program, for the period July 1, 1992, to December 31, 2001.

To accomplish our objective, we reviewed DSU's policies and procedures pertaining to the processing of expenditures and payroll, inventory of equipment, and administration of the endowment funds. We reviewed the continuation grant applications and annual performance reports submitted by DSU, accounting reports, payroll reports, bank statements, and endowment fund reports. We reviewed DSU's single audit reports for the years ended June 30, 1999, and 2000. We interviewed staff and officials from DSU's Business and Finance Office, DSU's Title III Program Office, and the directors for the activities funded with HBCU Program funds.

During the period October 1, 1997, to September 30, 2001, DSU charged \$2,056,668 in salary and wages to HBCU Program funds. From this universe, we selected a sample of 12 salary and wage transactions, totaling \$21,931, for review to determine if the positions and respective salary or wage rates charged were reasonable, allowable, and allocable to the HBCU Program. Our sample consisted of four randomly selected salary and wage transactions, totaling \$7,415, and eight judgmentally selected transactions totaling \$14,516. The judgmentally selected transactions were selected from the Enhancing Distance Learning Program activity. Depending on the activity selected, the payroll transaction may have consisted of payments to multiple employees.

During the period October 1, 1997, to September 30, 2001, DSU charged 3,654 non-labor expenditures, totaling \$1,313,517, to HBCU Program funds. From this universe, we selected a sample of 75 transactions, totaling \$47,307, for review to determine if the expenditures were reasonable, allowable, and allocable to the HBCU Program. Our sample consisted of 52 randomly selected transactions, totaling \$21,206, and 23 judgmentally selected transactions, totaling \$26,282. The judgmentally selected transactions were selected based upon the nature of the expense (i.e., the payee was a general merchandise retailer, recurring payments to a payee, large airfare or lodging expenses), or the dollar amount of the transaction.

Because portions of the payroll and non-labor expenditure samples were based upon the audit team's judgment, there is no assurance that the samples were representative of the entire population and, therefore, should not be projected over the unsampled expenditures.

We compared lists of HBCU Program-funded equipment that were prepared by DSU's Business and Finance Office and DSU's Title III Program Office. We performed a physical inspection of eight pieces of equipment with a value of \$5,000 or more.

We reviewed the pooled endowment fund's original unitization schedules, covering the period October 1, 1997, to September 30, 2001; the revised unitization schedules, covering the period July 1, 1992, to December 31, 2001; and the respective Common Fund investment reports. We analyzed the pooled endowment fund's market values, income, and distributions. We estimated the amount of interest earned on the grant's and pooled endowment fund's money market account balances. We reviewed information on matching funds raised by DSU; and reviewed the revised unitization schedules' activity for the two endowment funds established with Endowment Challenge Grant Program funds.

To achieve the assignment's objective, we relied upon computer-processed data contained in DSU's Banner Accounting System. We assessed the reliability of this data. As part of this assessment, we held discussions with DSU's Business and Finance Office officials to gain an understanding of the expenditure and payroll processes. To assess the completeness of the computer-processed data provided by DSU, we compared grant disbursement data from the Department's Grant Administration and Payment System to HBCU Program expenditure information provided by DSU. We compared randomly and judgmentally selected computer-processed data to source records. In addition, we compared judgmentally selected source records to computer-processed data in DSU's Banner Accounting System. Based upon these tests and assessments, we concluded that the data used was sufficiently reliable to be used for the assignment's objective.

We conducted on-site fieldwork at DSU's campus in Dover, Delaware during the period October 10, 2001, through November 20, 2001. On December 18, 2001, we held a briefing to discuss our preliminary findings with staff and officials from DSU's Business and Finance Office and Title III Program Office. We performed additional on-site fieldwork on February 11 and 22, 2002. On April 4, 2002, we held an exit conference with staff and officials from DSU's Business and Finance Office and Title III Program Office. We conducted the audit in accordance with government auditing standards appropriate to the scope described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review we assessed the system of management controls, policies, procedures, and practices applicable to DSU's administration of the HBCU Program. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objective.

For purposes of this audit, we assessed and classified the significant controls into the following categories:

- ❑ Program operations.
- ❑ Compliance with laws and regulations.
- ❑ Safeguarding resources.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed significant management control weaknesses that adversely affected DSU's ability to administer Title III-funded endowment funds. These weaknesses included not handling funds for the Endowment Challenge Program activity in a timely manner; reporting inaccurate information on the Endowment Challenge Program activity; and inadequate accounting of Title III-funded endowment funds. These weaknesses and their effects are fully discussed in the Audit Results section of the report.

APPENDIX A
DSU ACTIVITIES SUPPORTED WITH HBCU PROGRAM FUNDS

GRANT SUPPORTED ACTIVITY	ACTIVITY OBJECTIVE
Orientation, Mentoring & Advising	To retain students through student and academic support services.
Comprehensive Learning Center	To enhance DSU's academic support services for all undergraduates.
Faculty Development & Assessment	To implement effective strategies and initiatives to maintain a caring, competent, and committed faculty; and enhance teaching and learning through assessments and testing.
Enhancing Distance Learning	To train and support faculty in providing Web-enhanced courses.
Academic Computing Activities	To support and maintain DSU's computer technology and infrastructure, provide technical assistance and workshops to faculty and students, and promote the use of computers and the Internet in teaching and learning.
Computer Literacy in Art	To support and maintain computer lab equipment and software for art students and faculty.
Hospitality & Tourism Management	To increase the number of students enrolled in the Hospitality and Tourism Management Program.
Computer Literacy in Business	To enhance the computer literacy of students and faculty in the School of Management.
BIOASSIST	To integrate technology into the Biology Department's instruction to emphasize student-centered learning.
Careers Program	To enhance the opportunity for underrepresented students to pursue degrees and careers in the fields of Physical Sciences, Engineering, Life Sciences, Mathematics, and Computer Sciences.
Computerized Registration	To implement electronic student services systems.
Wellness Mentoring Program	To support fitness and wellness activities for students and faculty.
MATHACHIEVE	To integrate technology into instruction of algebra and calculus to enhance student achievement.
Nursing Faculty and Student-Teaching	To retain students from culturally diverse and disadvantaged backgrounds in the Nursing Program, and to facilitate their academic achievement to graduate and become Registered Nurses.
Alumni Training and Strategic Planning Program	To increase alumni advocacy, service, and financial contributions to DSU.
Endowment Challenge Program	To build DSU's endowment and improve financial stability.
Program Administration	To coordinate and monitor the activities designed to strengthen and enhance DSU.



DELAWARE STATE UNIVERSITY
DOVER, DELAWARE 19901

Office of the President

June 11, 2002

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Mr. Bernard Tadley
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
100 Penn Square East, Suite 502
Philadelphia, PA 19107

RE: Control No. ED-OIG/A03-B0026

Dear Mr. Tadley:

Pursuant to your letter dated May 22, 2002 regarding the aforementioned audit report, please be advised that this correspondence will serve as Delaware State University's response.

We have reviewed the audit results of the Title III Strengthening Historically Black Colleges and Universities Program. The corrective actions have been so noted in our responses.

If additional information is required, please direct your concerns to Mr. Ronald G Parr, Vice President for Business & Finance at (302) 857-6200.

Sincerely,


William B. DeLauder
President

WBD/kc

cc: Ronald G. Parr
Thomas Vitale
Gwendolyn Braxton

FINDING NO. 1

DSU did not handle funds for the Endowment Challenge Program activity in a timely manner.

RECOMMENDATION:

- 1.1 The Assistant Secretary for Postsecondary Education should ensure that DSU establishes management controls that result in the immediate match of the Title III grant funds for endowment activities and the immediate deposit of the grant and matching funds into an endowment fund.

AUDITEE'S PLAN FOR CORRECTIVE ACTION:

- 1.1 The University concurs with the auditor's recommendation. The University will ensure that all future drawdowns will be matched with funds from appropriate sources in a timely manner.

FINDING NO. 2

DSU reported inaccurate information on its Endowment Challenge Program activity.

RECOMMENDATIONS:

The Assistant Secretary for Postsecondary Education should:

- 2.1 Require that DSU establish management controls to ensure the verification of information (i.e., actual accomplishments, reasons for deviations from established goals, and developments that have a significant impact on award funded activities) reported in DSU's annual performance reports.
- 2.2 Require that DSU submit a report on the current status of the HBCU program-funded Endowment Challenge Program activity. Such a report should include the status of the endowment grant funds, information on the amounts and sources of the required matching funds, and a comparison of actual accomplishments of the activity to the previously reported accomplishments.

AUDITEE'S PLAN FOR CORRECTIVE ACTION

- 2.1 The University concurs with the auditor that the institution's policies regarding the matching funds for the Endowment Challenge Grants were not followed. The University will ensure that management shall verify that their policies on matching funds will be adhered to in the future. The University has implemented a new procedure to ensure verification of information provided on the DSU's annual performance report.
- 2.2 The University will submit a performance report on the current status of the Endowment Challenge Program activity. The report will also include the amount and source of the required matching funds and any needed comparisons and accomplishments of the activity.

FINDING NO. 3

DSU did not adequately account for the Title III - Funded Endowment Funds

RECOMMENDATIONS:

The Assistant Secretary for Postsecondary Education should:

- 3.1 Ensure that separate investment accounts are established by DSU with the correct fund balances for all Title III-funded endowment funds (i.e., Federal, Federal II, and Federal III).
- 3.2 Ensure that DSU's revised methodology of accounting for Title III-funded endowment funds meets the requirements set forth in regulations at 34 C.F.R. § 628.47.
- 3.3 Determine if DSU should submit revised financial report(s) for the Endowment Challenge Grant Program

AUDITEE'S PLAN FOR CORRECTIVE ACTION

- 3.1 The University has established separate endowment investment accounts with the correct fund balances for all Title III Challenge Grants with the Common Fund.
- 3.2 The University has revised its methodology of accounting for Title III Endowment funds that meets the requirements set forth in regulations 34 C.F.R. § 628.47 by establishing separate endowment investment accounts.

- 3.3 The University will submit revised financial reports for the Endowment Challenge Grant Program by July 15, 2002.

FINDING NO. 4

DSU charged unallowable and unsupported costs to HBCU program funds.

RECOMMENDATION:

- 4.1 The Assistant Secretary for Postsecondary Education should require that DSU ensures that staff involved in the expenditure approval process are familiar with what constitutes adequately supported and reasonable (i.e., necessary and related) HBCU program expenditures.

AUDITEE'S PLAN FOR CORRECTIVE ACTION

- 4.1 The University concurs with the auditor's recommendation and has reviewed the current approval process with staff. This review will assist staff in identifying reasonable expenditures of Title III grant funds.

OIG REPORT DISTRIBUTION LIST

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Delaware State University

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